

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name City of TC & Chtr Twp of Garfield Rec Auth	County Grand Traverse
Fiscal Year End June 30, 2006	Opinion Date August 17, 2006	Date Audit Report Submitted to State September 28, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

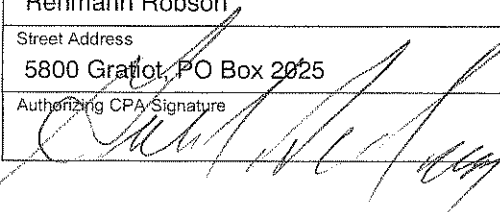
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 989 799-9580	
Street Address 5800 Gratiot, PO Box 2025		City Saginaw	State MI
Authorizing CPA Signature 		Printed Name Gerald J. Desloover	Zip 48605
		License Number 1101007126	

**CITY OF TRAVERSE CITY AND
CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

Traverse City, Michigan

FINANCIAL STATEMENTS

**For the Year Ended
June 30, 2006**

**CITY OF TRAVERSE CITY
AND CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

August 17, 2006

Board of Directors
City of Traverse City and Charter
Township of Garfield Recreational Authority

We have audited the accompanying financial statements of the governmental activities and each major fund of the *City of Traverse City and Charter Township of Garfield Recreational Authority* (the "Authority"), as of and for the year ended June 30, 2006, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of June 30, 2006, and the respective changes in its financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3-8 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The individual fund budgetary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The budgetary schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in the relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

CITY OF TRAVERSE CITY AND CHARTER TOWNSHIP OF GARFIELD RECREATIONAL AUTHORITY

Management's Discussion and Analysis

As management of the City of Traverse City and Charter Township of Garfield Recreational Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the fiscal year by \$501,985. Of this amount \$97,157 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Authority's net assets increased by \$257,154.
- This is the second year of the Authority's operations. In the prior year by approval of the citizens of the City of Traverse City and Charter Township of Garfield a millage was issued which allowed the Authority to issue a bond in the amount of \$6,650,000. Approximately eight percent or \$518,000 of bond proceeds is not yet expended as of fiscal year end June 30, 2006. These proceeds are held for additional property purchase at Hickory Meadows and infrastructure at the Grand Traverse Common Barns.
- During the year, environmental assessments and roof stabilization projects were completed on the Grand Traverse Common Barns, which cost approximately \$439,000.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements. The Authority's financial statements comprise three components: 1) government-wide statements 2) fund financial statements, and 3) notes to the financial statements.

Government-wide Statements

The *government wide financial statements* are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in

net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of activities* presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, amortization expense associated with other assets).

Both of the government wide financial statements distinguish the function of the Authority, which is principally supported by property taxes (*governmental activities*). The governmental activities of the Authority include the acquisition, construction, operation, maintenance, or improvement of public recreation centers, and public parks as may be acquired by the Authority or as may be transferred to it by a participating municipality.

The government-wide financial statements include only the Authority itself (known as the *primary government*). The Authority has no legally separate component units for which the Authority is financially accountable.

The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Authority is accounted for in governmental funds (General, Debt Service and Capital Project Funds).

Governmental funds. *Governmental funds* are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the *governmental funds* and *governmental activities*.

The Authority also maintains two other governmental funds. The Debt Service Fund is used to account for the accumulation of resources and the payment of general long-term debt principal, interest and related costs. The Capital Project Fund is used to account for bond proceeds to be used for the acquisition or construction of major capital facilities or equipment. Information for

each fund is presented in the balance sheet and in the statement of revenues, expenditures, and changes in fund balances for the Authority. Each fund is a major fund for financial reporting purposes as defined by GASB Statement #34.

The Authority adopts an annual appropriated budget for its funds. A budgetary comparison statement or schedules have been provided herein to demonstrate compliance with that budget.

The governmental fund financial statements can be found on pages 11 through 15 of this report.

The Authority does not maintain proprietary or fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Authority's financial statements. The notes to the financial statements can be found on pages 16 through 21 of this report.

Other information. In addition to the financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

The Authority's Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by approximately \$502,000 or a 105% increase over prior year at the close of the fiscal year, June 30, 2006.

Investment in capital assets net of related debt of \$41,862 is the cost of the assets purchased and the remaining balance to be spent on capital projects, less depreciation, less the long term debt outstanding used to finance the acquisition. The debt will be repaid from voter approved property taxes collected as the debt and interest payments come due. Restricted net assets of approximately \$363,000 are shown separately to recognize legal constraints from debt covenants.

City of Traverse City and Charter Township of Garfield Recreational Authority

	<u>June 30,</u> <u>2006</u>	<u>June 30,</u> <u>2005</u>
Governmental Activities		
Current and other assets	\$ 1,111,002	\$ 1,444,238
Capital assets	<u>6,005,992</u>	<u>5,515,600</u>
Total assets	7,116,994	6,959,838
Accrued expenses	70,009	65,007
Long-term liabilities outstanding	<u>6,545,000</u>	<u>6,650,000</u>
Total liabilities	6,615,009	6,715,007
Net assets		
Investment in capital assets, net of related debt	41,862	-
Restricted		
Debt service	254,389	251,685
Capital project	108,577	29,468
Unrestricted	<u>97,157</u>	<u>(36,322)</u>
Total net assets	<u>\$ 501,985</u>	<u>\$ 244,831</u>

City of Traverse City and Charter Township of Garfield Recreational Authority

	<u>June 30,</u> <u>2006</u>	<u>June 30,</u> <u>2005</u>
Governmental Activities		
Revenue		
Program revenue		
Charges for services	\$ 8	\$ 7,808
Capital grants and contributions	52,965	-
General revenue		
Property taxes	494,317	460,318
Interest earned	<u>33,905</u>	<u>27,367</u>
Total revenue	<u>581,195</u>	<u>495,493</u>
Expenses		
Recreation and culture	66,404	98,978
Interest expense	<u>257,637</u>	<u>151,684</u>
Total expenses	<u>324,041</u>	<u>250,662</u>
Increase in net assets	257,154	244,831
Net assets – beginning of year	<u>244,831</u>	<u>-</u>
Net assets – end of year	<u>\$ 501,985</u>	<u>\$ 244,831</u>

Governmental activities

Revenues by Source

Because the Authority receives the bulk of its revenue from property taxes of approximately \$494,000, it held a strong cash position throughout the year and it was able to cover its operation cost throughout the year. Its capital grants and contributions, of approximately \$53,000, was from contributions received from Grand Traverse Commons Redevelopment Corporation in the amount of \$40,000 to assist with the Common Barns renovation costs and GDO Investments in the amount of \$13,000 to assist with the costs of the Common Barns environmental assessments costs. Remaining revenue of approximately \$34,000 consists of investment income.

The revenue resources are constrained for the operation, maintenance and capital needs of the Authority and may not be utilized for other purposes as defined by the resource documentation.

Expenses

In 2006, total expenses approximated \$324,000. The bulk of the expenses were related to interest on bond obligations and administrative service fees paid to the City of Traverse City.

Financial Analysis of the Authority's Fund

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Authority's *general fund* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Authority's financing requirements. In particular, *fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Authority. At the end of the fiscal year, the total fund balance was \$161,083, which was unreserved and undesignated. The fund balance was higher than expected because expenditures expected did not occur until after fiscal year end.

During the year, Capital Project Fund expenditures were more than expected by approximately \$172,000. This was primarily attributed to environmental work, which was expected to be paid by the State but was paid by the Authority and additional environmental work not anticipated at the both the Smith Barney building and Common Barns property.

General Fund Budgetary Highlights

During the year, General Fund expenditures were less than budgetary estimates by approximately \$66,000. This was primarily attributed to the consulting project community evaluation program (determining what the community wants the Common Barns property to become) not starting until the subsequent fiscal year.

Capital Asset and Debt Administration

Capital assets are primarily comprised of land and renovation costs of the Common Barns, which amount to \$6,005,992 (net of accumulated depreciation). Additional information on the Authority's capital assets can be found in Note 3 on page 19 of this report.

City of Traverse City and Charter Township of Garfield Recreational Authority Capital Assets (net of depreciation)

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Land	\$ 5,560,304	\$ 5,515,600
Buildings	<u>445,688</u>	<u>-</u>
Total	<u>\$ 6,005,992</u>	<u>\$ 5,515,600</u>

Long-term debt consisted of a bond obligation for the purchase of various parcels of land; as of fiscal year end there was an outstanding balance of \$6,545,000, reduced this year by the principal payment due in the amount of \$105,000. Additional information can be found in Note 4 on page 20 of this report.

Economic Factors and Next Year's Budgets and Rates

The next year continues the strong fiscal position of the Authority. Property tax rates will be reduced from .01 to .0995 for the general operating millage and .27 to .26 for the debt service millage, respectively. The remaining fund balance in the Capital Project Fund will be used for the Common Barns property. The remaining projects at the Common Barns property include watermain installation, wastewater main installation, Franke Road construction. In addition, \$100,000 is set aside for property purchase at Hickory Meadows.

Requests for Information

This financial report is designed to provide a general overview of Authority finances for all those with an interest in the finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Richard I. Lewis, City of Traverse City and Charter Township of Garfield Recreational Authority, 400 Boardman Avenue, Traverse City, MI 49684.

CITY OF TRAVERSE CITY AND CHARTER TOWNSHIP OF GARFIELD RECREATIONAL AUTHORITY

Statement of Net Assets June 30, 2006

	Governmental Activities
Assets	
Cash	\$ 1,048,216
Accounts receivable	342
Unamortized bond costs	48,900
Unamortized bond discount	13,544
Land	5,560,304
Capital assets, net of accumulated depreciation	445,688
Total assets	7,116,994
Liabilities	
Accounts payable	6,083
Accrued interest payable	63,926
Non-current liabilities	
Due within one year	80,000
Due in more than one year	6,465,000
Total liabilities	6,615,009
Net Assets	
Investment in capital assets, net of related debt	41,862
Restricted	
Debt service	254,389
Capital project	108,577
Unrestricted	97,157
Total net assets	\$ 501,985

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY AND CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

**Statement of Activities
For the Year Ended June 30, 2006**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Capital Grants and Contributions	
Culture and recreation	\$ 66,404	\$ 8	\$ 52,965	\$ (13,431)
Interest on long-term debt	257,637	-	-	(257,637)
	<u>\$ 324,041</u>	<u>\$ 8</u>	<u>\$ 52,965</u>	<u>(271,068)</u>
General revenues				
Property taxes				494,317
Unrestricted investment earnings				<u>33,905</u>
Total general revenues				<u>528,222</u>
Change in net assets				<u>257,154</u>
Net assets, beginning of year				<u>244,831</u>
Net assets, end of year				<u>\$ 501,985</u>

The accompanying notes are an integral part of these financial statements.

CITY OF TRAVERSE CITY AND CHARTER TOWNSHIP OF GARFIELD RECREATIONAL AUTHORITY

Balance Sheet Governmental Funds June 30, 2006

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Construction Bond Fund</u>	<u>Total Governmental Funds</u>
Assets				
Cash	\$ 167,166	\$ 254,389	\$ 626,661	\$ 1,048,216
Accounts receivable	<u>-</u>	<u>-</u>	<u>342</u>	<u>342</u>
Total assets	<u>\$ 167,166</u>	<u>\$ 254,389</u>	<u>\$ 627,003</u>	<u>\$ 1,048,558</u>
Liabilities				
Accounts payable	<u>\$ 6,083</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,083</u>
Fund balance				
Reserved for				
Debt service	-	254,389	-	254,389
Capital projects	-	-	627,003	627,003
Unreserved and undesignated	<u>161,083</u>	<u>-</u>	<u>-</u>	<u>161,083</u>
Total fund balances	<u>161,083</u>	<u>254,389</u>	<u>627,003</u>	<u>1,042,475</u>
Total liabilities and fund balances	<u>\$ 167,166</u>	<u>\$ 254,389</u>	<u>\$ 627,003</u>	<u>\$ 1,048,558</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY AND CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

**Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to
Net Assets of Governmental Activities on the Statement of Net Assets
June 30, 2006**

Fund balances - total governmental funds	\$ 1,042,475
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Amounts reported for governmental activities in the statement of net assets
are different because

Capital assets used in governmental activities are not financial resources, and therefore
not reported in the funds.

Add: land	5,560,304
Add: capital assets	451,330
Deduct: accumulated depreciation	(5,642)
Add: unamortized assets	67,813
Deduct: accumulated amortization	(5,369)

Certain liabilities, such as bonds payable, are not due and payable in the current period
and therefore are not reported in the funds.

Deduct: bonds payable	(6,545,000)
Deduct: accrued interest on non-current liabilities	<u>(63,926)</u>

Net assets of governmental activities	<u><u>\$ 501,985</u></u>
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Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF TRAVERSE CITY AND CHARTER TOWNSHIP OF GARFIELD RECREATIONAL AUTHORITY

Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds For the Year Ended June 30, 2006

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Construction Bond Fund</u>	<u>Total Governmental Funds</u>
Revenues				
Property taxes	\$ 132,503	\$ 361,814	\$ -	\$ 494,317
Contributions	-	-	52,965	52,965
Reimbursements	8	-	-	8
Interest	2,907	4,853	26,145	33,905
Total revenues	<u>135,418</u>	<u>366,667</u>	<u>79,110</u>	<u>581,195</u>
Expenditures				
Current				
Professional services	26,746	-	130,287	157,033
Office supplies and utilities	8,609	-	44	8,653
Capital outlay	20,808	-	366,667	387,475
Debt service				
Principal	-	105,000	-	105,000
Interest and fiscal charges	-	258,963	-	258,963
Total expenditures	<u>56,163</u>	<u>363,963</u>	<u>496,998</u>	<u>917,124</u>
Net change in fund balances	79,255	2,704	(417,888)	(335,929)
Fund balances, beginning of year	81,828	251,685	1,044,891	1,378,404
Fund balances, end of year	<u><u>\$ 161,083</u></u>	<u><u>\$ 254,389</u></u>	<u><u>\$ 627,003</u></u>	<u><u>\$ 1,042,475</u></u>

Continued.....

The accompanying notes are an integral part of these financial statements.

CITY OF TRAVERSE CITY AND CHARTER TOWNSHIP OF GARFIELD RECREATIONAL AUTHORITY

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities For the Year Ended June 30, 2006

Net change in fund balances	\$ (335,929)
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Amounts reported for governmental activities in the statement of activities
are different because

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their useful lives.

Add: capital outlay	496,034
Deduct: depreciation expense	(5,642)

Governmental funds report bond related costs as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their useful lives and
reported as amortization expense.

Deduct: bond issuance costs amortization	(2,653)
Deduct: bond discount amortization	(737)

Under the modified accrual basis of accounting used in the governmental funds, expenditures
are not recognized for transactions that are normally paid with expendable and available
resources. In the statement of activities, however, which is presented on the accrual basis
of accounting, expenses and liabilities are recorded regardless when financial resources are
available. In addition, interest on long-term debt is not recognized under the modified accrual
basis until due, rather than as it accrues.

Add: decrease in accrued interest on bonds	1,081
Add: principal payments	105,000

Change in net assets of governmental funds	<u>\$ 257,154</u>
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Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF TRAVERSE CITY AND CHARTER TOWNSHIP OF GARFIELD RECREATIONAL AUTHORITY

Statement of Revenues, Expenditures and Changes in Fund Balance Budget to Actual General Fund

For the Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Revenues				
Property taxes	\$ 130,000	\$ 130,000	\$ 132,503	\$ 2,503
Interest	350	350	2,907	2,557
Reimbursements	<u>-</u>	<u>-</u>	<u>8</u>	<u>8</u>
Total revenues	<u>130,350</u>	<u>130,350</u>	<u>135,418</u>	<u>5,068</u>
Expenditures				
Professional services	54,050	54,050	26,746	(27,304)
Office supplies and utilities	18,000	18,000	8,609	(9,391)
Capital outlay	<u>50,000</u>	<u>50,000</u>	<u>20,808</u>	<u>(29,192)</u>
Total expenditures	<u>122,050</u>	<u>122,050</u>	<u>56,163</u>	<u>(65,887)</u>
Net change in fund balances	8,300	8,300	79,255	70,955
Fund balances, beginning of year	<u>81,828</u>	<u>81,828</u>	<u>81,828</u>	<u>-</u>
Fund balance, end of year	<u>\$ 90,128</u>	<u>\$ 90,128</u>	<u>\$ 161,083</u>	<u>\$ 70,955</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY AND
CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – The City of Traverse City and Charter Township of Garfield Recreational Authority (the “Authority”) is incorporated for the purpose of the acquisition, construction, operation, maintenance, or improvement of public recreation centers, public parks, and public conference centers as may be acquired by the Authority or as may be transferred to it by a participating municipality. The Authority may donate, sell, lease or transfer any such facilities so acquired, only after the participating municipalities have given authorization.

Government-wide and Fund Financial Statements – The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Authority. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Authority has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation – The government-wide financial information is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the years for which they are levied.

Governmental fund financial information is reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough

**CITY OF TRAVERSE CITY AND
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thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Authority reports the following major governmental funds:

The *General Fund* is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

The *Debt Service Fund* is used to account for the accumulation of resources for and the payment of general long-term debt principal, interest and related costs.

The *Capital Project Fund* is used to account for bond proceeds to be used for the acquisition or construction of major capital facilities or equipment.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

Capital assets – Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported on the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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Notes to Financial Statements

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	40

Long-term obligations – In the government-wide financial statements long-term debt is reported as liabilities in the governmental activities statement of net assets. Bond discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bond discounts and issuance costs are reported as other assets and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond discounts, as well as bond issuance costs, during the current period. The face amount of debt issued, net of discount, is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Budgetary Information – The General Fund, Debt Service Fund and Construction Bond Fund are under formal budgetary control and their budgets are prepared on the same modified accrual basis used to reflect actual results. The Authority follows the process below in establishing the budgetary data reflected in the financial statements:

- The management team prepares and submits a proposed budget to the Authority's Board of Directors for review and consideration. The Authority submits the proposed budget to the participating municipalities for review and comment at their respective public meetings. Public hearings are held to obtain taxpayer comments by the Authority. The process is completed and the budget is legally adopted through the Board of Directors resolution prior to the beginning of the budgetary year for the Authority's funds.
- The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted or amended by the Board of Directors during the year. No amendments were made to the original appropriations.

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Notes to Financial Statements

2. CASH

Michigan Compiled Laws, Section 129.91 authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Authority's investment policy is the same as that authorized by state law.

The Authority's cash is comprised of bank deposits held with a financial institution with a bank balance of \$1,052,608 at June 30, 2006.

Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit) at \$1,052,608. Of that amount, \$100,000 was covered by federal depository insurance and the remainder of \$952,608 was uninsured and uncollateralized.

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Notes to Financial Statements

3. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Ending Balance</u>
Capital assets not being depreciated –			
Land	\$ 5,515,600	\$ 44,704	\$ 5,560,304
Capital assets being depreciated			
Buildings	-	451,330	451,330
Less accumulated depreciation for Buildings	<u>-</u>	<u>5,642</u>	<u>5,642</u>
Total capital assets being depreciated, net	<u>-</u>	<u>445,688</u>	<u>445,688</u>
Governmental activities capital assets, net	<u>\$ 5,515,600</u>	<u>\$ 490,392</u>	<u>\$ 6,005,992</u>

Depreciation expense in the amount of \$5,642 was charged to the culture and recreation function.

4. NON-CURRENT LIABILITIES

The following is a summary of bond debt transactions of the Authority for the year ended June 30, 2006:

	<u>Balance 07/01/05</u>	<u>Deductions</u>	<u>Balance 06/30/06</u>	<u>Due Within One Year</u>
2004 general obligation recreation bond, interest rates ranging from 2.50% - 4.45%, matures 2025.	<u>\$ 6,650,000</u>	<u>\$ (105,000)</u>	<u>\$ 6,545,000</u>	<u>\$ 80,000</u>

**CITY OF TRAVERSE CITY AND
CHARTER TOWNSHIP OF GARFIELD
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Notes to Financial Statements

The following is a summary of bond debt transactions of the Authority for the year ended June 30, 2006:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 80,000	\$ 256,405
2008	100,000	254,030
2009	120,000	251,005
2010	150,000	247,105
2011	160,000	242,255
2012-16	1,210,000	1,103,588
2017-21	2,115,000	794,919
2022-25	<u>2,610,000</u>	<u>242,689</u>
	<u>\$ 6,545,000</u>	<u>\$ 3,391,996</u>

5. PROPERTY TAXES

The government's property taxes are levied each July 1 on the taxable valuation of property located in the City and Garfield Township as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through February 15; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Grand Traverse County. Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50 percent of current market value. Real and personal property of the Authority for the 2005 levy were assessed and equalized at \$1,368,721,214, representing 50 percent of estimated current market value. The Authority's debt and general operating tax rate for fiscal year 2005-06 was 0.27 and .10 mills, respectively.

6. RELATED PARTY TRANSACTIONS

The City of Traverse City (the "City"), a related party (by virtue of common board members and management), provides management services on behalf of the Authority. These services include maintaining financial records and reporting. In return for these services, the City received fees from the Authority in the amount of \$16,175 during the year ended June 30, 2006.

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Notes to Financial Statements

7. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions and natural disasters for which the Authority carries commercial insurance with minimal deductibles. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage.

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**CITY OF TRAVERSE CITY AND CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

**Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual
Debt Service Fund**

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes	\$ 350,900	\$ 350,900	\$ 361,814	\$ 10,914
Interest	-	-	4,853	4,853
Total revenues	350,900	350,900	366,667	15,767
Expenditures				
Debt service				
Principal	105,000	105,000	105,000	-
Interest and fiscal charges	258,750	258,750	258,963	213
Total expenditures	363,750	363,750	363,963	213
Revenues over (under) expenditures	(12,850)	(12,850)	2,704	15,554
Net change in fund balances	251,685	251,685	251,685	-
Fund balance, end of year	\$ 238,835	\$ 238,835	\$ 254,389	\$ 15,554

**CITY OF TRAVERSE CITY AND CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

**Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual
Capital Project Fund**

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Contributions	\$ 7,500	\$ 7,500	\$ 52,965	\$ 45,465
Interest	2,500	2,500	26,145	23,645
Total revenues	10,000	10,000	79,110	69,110
Expenditures				
Professional services	25,000	25,000	130,287	105,287
Office supplies and utilities	-	-	44	44
Capital outlay	300,000	300,000	366,667	66,667
Total expenditures	325,000	325,000	496,998	171,998
Net change in fund balances	(315,000)	(315,000)	(417,888)	(102,888)
Fund balance, beginning of year	1,044,891	1,044,891	1,044,891	-
Fund balance, end of year	\$ 729,891	\$ 729,891	\$ 627,003	\$ (102,888)